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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

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Joint Application of

ALITALIA-LINEE AEREE ITALIANE-
S.p.A.

And

KLM ROYAL DUTCH AIRLINES

And

NORTHWEST AIRLINES, INC.

for approval of and antitrust immunity for
agreements pursuant to 49 U.S.C. §§ 41308
and 41309

Docket OST-99-5674 - 28

**JOINT REPLY OF NORTHWEST AIRLINES, INC.,
KLM ROYAL DUTCH AIRLINES
AND ALITALIA-LINEE AEREE ITALIANE-S.P.A.**

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Dated: September 1, 1999

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Dated: September 1, 1999

**JOINT REPLY OF NORTHWEST AIRLINES, INC.,
KLM ROYAL DUTCH AIRLINES
AND ALITALIA-LINEE AEREE ITALIANE-S.P.A.**

Northwest Airlines, Inc. (“Northwest”), KLM Royal Dutch Airlines (“KLM”) and Alitalia-Linee Aeree Italiane-S.p.A. (“Alitalia”) (referred to collectively as “the Joint Applicants”), pursuant to the Department’s Order 99-8-5, hereby submit the following Joint Reply to the Answer of the International Association of Machinists and Aerospace Workers, AFL-CIO (“IA,“).’ Counsel for the IAM essentially raises two arguments in opposition to the Joint Application: first, that there is existing competitive overlap among the Joint Applicants and that, as a result, further information and analysis is required in order for the Department to reach a decision in this proceeding; and second, that the IAM’s ongoing labor dispute with

¹ Answer of the International Association of Machinists and Aerospace Workers, AFL-CIO to the Joint Application, August 23, 1999 (“IAM Answer”).

Alitalia warrants disapproval of the joint application. This Joint Reply addresses the first issue only; Alitalia is responding to the second in a separate reply also filed today with the Department. In their Joint Application² and Joint Response³ to specific questions raised and information requested by the Department in Order 99-5-10, the Joint Applicants set forth a comprehensive and highly detailed case for approval and antitrust immunity on the grounds that the proposed alliance will generate substantial public benefits by increasing consumer choice and promoting competition while causing no adverse effects on competition. Significantly, no U.S. or foreign carrier has opposed the joint application on competition or any other grounds.⁴

The Answer filed on behalf of the IAM asserts that there is existing competitive overlap among the Joint Applicants and that, as a result, further information and analysis is required in order for the Department to reach a decision in this proceeding.’ Unfortunately, in characterizing the competitive position of the Joint Applicants in the U.S.-Italy market, the IAM’s answer relies upon incorrect facts. The Joint Applicants’ principal objectives in submitting this Reply are to correct numerous inaccuracies contained in the IAM’s Answer, inaccuracies that are the sole basis of the argument that there is existing competitive overlap between the Joint Applicants, and

² Joint Application of Alitalia-Linee Aeree Italiane-S.p.A., KLM Royal Dutch Airlines and Northwest Airlines, Inc., May 11, 1999.

³ Joint Response of Alitalia-Linee Aeree Italiane-S.p.A., KLM Royal Dutch Airlines and Northwest Airlines, Inc. to Order 99-5-10, July 15, 1999 (“Joint Response”).

⁴ Both American Airlines and Delta Air Lines have submitted applications to the Department for authority to introduce new scheduled services between the United States and Italy once open skies become effective. Application of Delta Air Lines, Inc. for an Exemption, August 25, 1999 (Docket OST-99-6170); Application of American Airlines, Inc. for Certificate of Public Convenience and Necessity (U.S.-Italy), August 9, 1999 (Docket OST-99-6085).

⁵ On the other hand, the Department has conducted a preliminary review of those submissions and has “determine[d] that the record of this case is substantially complete.” DOT Scheduling Notice, July 19, 1999, at 2.

to demonstrate that the record is complete and ready for decision. Addressing each of the IAM's competitive overlap arguments, the Joint Applicants submit the following:

- A. Northwest does not presently hold out code-share service in the U.S.-Italy market; characterizations to the contrary by IAM's counsel are based on inaccurate facts.**

The IAM's Answer represents that competitive overlap exists among the Joint Applicants because Northwest holds out code-share service in the U.S.-Italy market today. Northwest does not hold out service on a code-share basis in the U.S.-Italy market. The conclusion to the contrary in the IAM's Answer appears to be based upon misinterpretations of airline flight schedules. For example,

- The IAM's Answer indicates that Northwest offers service from Minneapolis/St. Paul to Rome on a third-country code-share basis with KLM via Amsterdam. IAM Answer, at 7. Specifically, the IAM states that "tickets on Flights 664 (Minneapolis-Amsterdam) and 1596 (Amsterdam-Rome) carry Northwest's designator code." IAM's counsel is incorrect. Northwest offers code-share service on KLM's flight (NW 8664) from Minneapolis to Amsterdam under existing authority granted to Northwest in conjunction with its antitrust immunized alliance with KLM⁶; however, Northwest does not place its code on any KLM flight to or from Rome, as it holds no authority to do so.⁷ Flight 1596 referenced in the IAM's Answer is a KLM flight from Rome to Amsterdam, and does not carry Northwest's code. To be clear about it,

⁶ See Order 99-6- 11, Appendix, at 1-2.

⁷ The IAM also alleges that Continental places its designator code on flight 601 between Newark and Rome. IAM Answer, at 7. This also is inaccurate. Continental's Newark-Rome service is listed under flight numbers 40 and 42, while flight number 601 is a Continental flight from Newark to Milan.

Northwest's designator code does not appear on any flight operated by any carrier to or from Rome or any other point in Italy.

- The IAM's Answer states that Northwest holds out Minneapolis-Rome service by placing its code on KL flight number 664 (MSP-AMS) and on "Alitalia" flight number 453 1 (AMS-ROM). IAM Answer, at 8 & n.4 (describing Northwest as "the listed carrier" for those flights). Again, counsel for the IAM has proffered erroneous facts. Northwest does place its designator code on KL flight 664 (MSP-AMS), as stated above, but Northwest does not code-share on flight 453 1, as alleged. In fact, flight 453 1 is a KLM flight from Amsterdam to Milan, not an Alitalia or Northwest flight to Rome. It bears repeating: Northwest's designator code does not appear on any flight operated by any carrier to Rome, Milan, or any other point in Italy.
- The IAM's Answer further represents that Alitalia and Continental "currently offer service in the same city-pair markets as do Northwest and KLM." IAM Answer, at 10. Yet again, IAM's Answer is incorrect. Alitalia and Continental operate code-share service between the United States and Italy, while Northwest does not hold out any service in the U.S.-Italy market.

Northwest presently does not hold out service to/from Italy and does not display its two-letter designator code on any flight operated to/from Italy by KLM, Alitalia or Continental. There is no competitive overlap today between the Joint Applicants in the U.S.-Italy market and, hence, the Department's approval of the proposed Northwest/KLM/Alitalia tripartite alliance will have no negative impact on competition in that market. The IAM's assertions to the contrary are based upon incorrect facts.

- B. There is no competitive overlap among the Joint Applicants by virtue of relationships that currently exist between Northwest and Continental, Continental and Alitalia, and KLM and Alitalia. Contrary to the IAM's assertion, the record in this proceeding is complete and ready for final determination.**

The IAM claims that the record in this proceeding is incomplete due to a failure by the Joint Applicants to fully disclose competitive overlap that the IAM alleges exists today by virtue of relationships involving Northwest and Continental, Continental and Alitalia, and Alitalia and KLM. None of these commercial arrangements involves competitive overlap between the Joint Applicants in the U.S.-Italy market. The Joint Applicants have produced all relevant information and the record is ready for final review by the Department.

- 1. Northwest's independent relationship with Continental has no bearing on the Department's decision in this proceeding; Continental is not a participant in the proposed tripartite alliance.**

The Department is fully aware of the details regarding the commercial relationship between Northwest and Continental. No relevant information regarding that relationship is being withheld in this proceeding. Northwest and Continental deal with each other at arm's length as competitors. Contrary to the IAM's assertions, Northwest and Continental do not coordinate schedules in the competitive sense – not in the U.S.-Italy market nor any other market.⁸ Northwest does not code-share on any flights operated by Continental to/from Italy; nor does Northwest participate in U.S.-Italy traffic by virtue of Continental's relationship with Alitalia, discussed further below. The Joint Applicants have produced all relevant information and agreements relating to Continental's role in the proposed tripartite alliance. As the Joint

⁸ The IAM's Answer also is incorrect with respect to code-sharing between Northwest and Continental on flights operated by the other in their hub-to-hub markets. IAM Answer, at 7-8. Northwest and Continental do not code-share for traffic on the local segments between their respective hubs.

Applicants have explained repeatedly, Continental is not a party to the Northwest/KLM/Alitalia code-share agreement under consideration here, and the parties have not agreed upon terms under which Continental would join the proposed tripartite alliance. See Joint Response, at 5. If such an agreement emerges in the future, the four parties to that agreement will submit a new application to the Department for approval as necessary.

2. Continental's blocked-space code-share arrangement with Alitalia is entirely separate and distinct from the proposed Northwest/KLM/Alitalia alliance.

As for Continental's code-share relationship with Alitalia, the Department is thoroughly familiar with that arrangement, having approved it three times. See Order 96-1 1-1 5, November 18, 1996; Order 95-1 1-20, November 13, 1995; Order 94-1 O-27, October 21, 1994 (Dockets OST-95-347, 95-348). Alitalia and Continental compete, and will continue to compete, with each other under a blocked-space code-share arrangement that is entirely separate from the proposed Northwest/KLM/Alitalia partnership (which, in contrast to the CO/AZ arrangement, will be an integrated, antitrust-immunized alliance). The Joint Applicants have been forthright in addressing this issue; nothing is being hidden from the Department. See Joint Response, at 5-6. Approval of the Joint Application will in no way diminish competition that exists today between Continental and Alitalia.

3. Similarly, the commercial arrangement between KLM and Alitalia is separate and distinct from the proposed tripartite alliance of Northwest, KLM and Alitalia.

The IAM objects that the Joint Applicants have failed to address the recently announced commercial agreement between KLM and Alitalia in their May 11, 1999 Joint Application and July 15, 1999 Joint Response. As demonstrated by the very source relied upon by IAM's counsel, the KLM/Alitalia agreement was reached after the Joint Application and Joint Response were filed with the Department. See IAM Answer, at 9-10, quoting Wall Street Journal, August

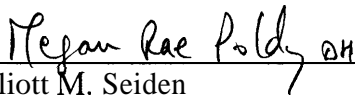
2, 1999, at A1 2. The Joint Applicants have hidden nothing about this agreement and have no reason to do so. The alliance between KLM and Alitalia involves the operational merger of the two airlines' systems. KLM and Alitalia presently lack authority to (and indeed do not) operate joint flights to or from the United States, and do not plan to do so until the advent of the U.S.-Italy open skies and DOT approval of the tripartite alliance. The KLM/Alitalia agreement, which does not itself require Department approval, does not affect or alter the proposed tripartite alliance agreement that is the subject of this proceeding. All relevant information already is contained in the record and the Joint Application therefore is ready for final action by the Department.

* * *


In conclusion, the IAM's argument that competitive overlap exists today among the applicants in the U.S.-Italy market is based on inaccurate facts. Northwest does not currently serve the U.S.-Italy market, including via code-sharing. Continental is not a party to the tripartite agreement at issue here and no agreement exists at this time to bring Continental into the three-carrier alliance. Northwest and Continental deal with each other at arm's length as competitors, and approval of the tripartite alliance proposed herein will not change these circumstances. Continental and Alitalia similarly deal with each other at arm's length as competitors, and approval of this application will not change their relationship. The recent KLM/Alitalia agreement does not concern the U.S.-Italy market and no additional facts regarding that arrangement are therefore required.

The Joint Applicants have established that their proposed alliance is both pro-consumer and pro-competition, offering substantial public benefits that will accrue not just from alliance approval, but also from the accompanying introduction of U.S.-Italy open skies. The Joint applicants therefore urge the Department to approve and grant antitrust immunity to the proposed alliance as expeditiously as possible.

Respectfully submitted,

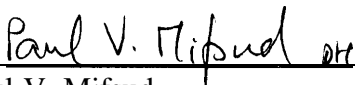


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Dated: September 1, 1999

CERTIFICATE OF SERVICE

I certify that on this 1 st day of September 1999, a copy of the foregoing Joint Reply of Alitalia-Linee Aeree Italiane-S.p.A., KLM Royal Dutch Airlines, and Northwest Airlines, Inc. was served by first class mail, postage prepaid, upon the following:

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